

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

North Shore Gas Company)	
)	
The Peoples Gas Light)	
and Coke Company)	
)	Docket No. 10-
Petition Pursuant to Section 8-104 of the)	
Public Utilities Act to Submit an Energy)	
Efficiency Plan)	

DIRECT TESTIMONY
OF
EDWARD M. KORENCHAN

- 1 Q. Please state your name and business address.
- 2 A. Edward M. Korenchan, 130 East Randolph Drive, Chicago, Illinois 60601.
- 3 Q. By whom are you employed?
- 4 A. I am employed by Integrys Business Support, LLC ("IBS"), a centralized
- 5 service company for the Integrys Energy Group, Inc. ("Integrys").
- 6 Q. What position do you hold with IBS?
- 7 A. I am the Coordinator, Rates in the Gas Regulatory Services Department.
- 8 Q. What are your responsibilities in that position?
- 9 A. I am responsible for coordinating and conducting activities related to rate
- 10 and tariff administration as well as rate research, and for supporting the
- 11 development of rate policies for Petitioners, North Shore Gas Company ("North
- 12 Shore Gas") and The Peoples Gas Light and Coke Company ("Peoples Gas")
- 13 (together, the "Utilities"), affiliate companies of IBS.
- 14 Q. Please summarize your educational background and experience.

15 A. I graduated from the University of Illinois at Chicago in 1986 with a
16 Bachelor of Science Degree in Accounting. I began my employment at Peoples
17 Gas in March 1986 in the General Accounting Department. Since then, I have
18 been employed in various positions and levels of responsibility within State
19 Regulatory Affairs, Marketing Research and Gas Regulatory Services. I have
20 been in my present position since June 2007.

21 Q. Please give a brief description of the operations and status of the North
22 Shore Gas.

23 A. I am advised by counsel that North Shore Gas is a corporation organized
24 and existing under the laws of the State of Illinois, having its principal office at
25 130 East Randolph Drive, Chicago, Illinois 60601. It is engaged in the business
26 of purchasing natural gas for and distributing, selling and transporting natural gas
27 to approximately 158,000 customers in 54 communities in Cook and Lake
28 Counties, Illinois. I am advised by counsel that North Shore Gas is a public utility
29 within the meaning of the Public Utilities Act (the "Act"). North Shore Gas is a
30 wholly-owned subsidiary of Peoples Energy Corporation ("PEC"), which is a
31 wholly-owned subsidiary of Integrys.

32 Q. Please give a brief description of the operations and status of the Peoples
33 Gas.

34 A. I am advised by counsel that Peoples Gas is a corporation organized and
35 existing under the laws of the State of Illinois, having its principal office at 130
36 East Randolph Drive, Chicago, Illinois 60601. It is engaged in the business of
37 purchasing natural gas for and distributing, selling and transporting natural gas to

approximately 817,000 customers in the City of Chicago. I am advised by counsel that Peoples Gas is a public utility within the meaning of the Act. Like North Shore Gas, Peoples Gas is a wholly-owned subsidiary of PEC.

Q. Please describe the subject matter of this proceeding.

A. Public Act 96-0033 added Section 8-104 to the Act. That Section requires gas utilities serving more than 100,000 customers on January 1, 2009, to file an energy efficiency plan no later than October 1, 2010. North Shore Gas and Peoples Gas each meet this criterion. Accordingly, they are filing a plan for the period June 1, 2011, through May 31, 2014 ("Plan Period"). Section 8-104 includes specific savings, by year, that a gas utility must meet, subject to certain exceptions. Implementation of programs to achieve these savings is split between the utility and the Department of Commerce and Economic Opportunity ("DCEO").

Q. Are North Shore Gas and Peoples Gas asking to be treated as a single utility for purposes of complying with Section 8-104?

A. No. Although I am advised by counsel that Section 8-104 would permit this, North Shore Gas and Peoples Gas are not making this election. Each has developed plans that will result in each utility meeting the required savings applicable to it. Each will also track costs separately. However, they are filing a single petition because their proposed efficiency measures and cost recovery mechanisms are very similar. Petitioners' witness Mr. Marks testifies in detail about each utility's plan.

Q. Are you including any attachments with your testimony?

61 A. Yes. I am attaching the following exhibits with my testimony:

62 NS-PGL Ex. 2.1, Pro Forma Rider EOA, is the proposed addition to
63 the Utilities' tariffs that provides for recovery of eligible costs for the energy
64 efficiency and on-bill financing programs through monthly per-customer
65 charges.

66 NS-PGL Ex. 2.2, Calculation of Forecasted Monthly Per-Customer
67 Charges, demonstrates the annual calculation of the monthly per-customer
68 charges under Rider EOA.

69 NS-PGL Ex. 2.3, Illustrative Information Sheets, represents the
70 proposed format for the annual filing of the Rider EOA Effective
71 Components.

72 NS-PGL Ex. 2.4, Illustrative Annual Reconciliation Calculation,
73 demonstrates the operation of the reconciliation calculations over the first
74 three years of the program under Rider EOA.

75 NS-PGL Ex. 2.5, Calculation of Savings Targets, represents the
76 calculation of the required savings in therms by year for the first three
77 years of the program. The calculation is based on actual 2009 activity.

78 NS-PGL Ex. 2.6, Calculation of Section 8-104(d) Rate Impact Cap,
79 represents the calculation of the annual statutory cap limiting the dollar
80 amount of recoveries from customers through Rider EOA. The calculation
81 is based on forecast activity for the period of June 1, 2011 through May
82 31, 2012.

83 Q. Please summarize your testimony.

84 A. The purpose of my testimony is to: (1) describe the operation of proposed
 85 Rider EOA; (2) discuss the rate design objectives addressed by the rider; (3)
 86 describe the calculation of the savings targets required to meet the goals set out
 87 in the Act; and (4) describe the calculation of the Rate Impact Cap. Testimony
 88 and calculations are based on the three-year plan ("Plan") and the Plan Period.

89 Q. Please describe Petitioners' proposed cost recovery tariffs.

90 A. The proposed cost recovery tariff, Rider EOA, is provided for North Shore
 91 Gas and Peoples Gas in NS-PGL Ex. 2.1. This exhibit is not in the required tariff
 92 format but includes the substance of what the Utilities propose. When the
 93 Utilities make their compliance filings, they will conform the rider as well as any
 94 required changes to the Table of Contents to the Commission's format rules.

95 Rider EOA includes the following sections:

96 Section A – Applicability and Purpose

97 Section B – Limitations (2% statutory cap on recoveries through the rider)

98 Section C – Definitions

99 Section D – Determination of Adjustment

100 Section E – Reports and Reconciliations

101 Section F – Terms and Conditions

102 Rider EOA applies to all service classifications ("S.C."s); however, the rider does
 103 not apply to individual customers identified by DCEO as exempt or self-directing
 104 pursuant to Section 8-104(m) of the Act.

105 The rider will recover eligible costs of energy efficiency and on-bill
 106 financing through per-customer charges. Costs of energy efficiency recovered

through the rider include costs for both the Utilities and DCEO. DCEO is responsible for achieving 20% of the efficiency goals, and is entitled to 25% of the available funds approved by the Commission and recovered through the rider. Rider EOA per-customer charges are determined separately for:

- 1) Residential Energy Efficiency for S.C. No. 1, Small Residential Service;
- 2) Residential Energy Efficiency for S.C. No. 2, General Service;
- 3) Commercial-Industrial Energy Efficiency for combined S.C. Nos. 2; 4, Large Volume Demand Service; 5, Contract Service for Electric Generation; 7, Contract Service to Prevent Bypass; and 8, Compressed Natural Gas Service, for Peoples Gas; and S.C. Nos. 2; 3, Large Volume Demand Service; 4, Contract Service to Prevent Bypass; and 6, Contract Service for Electric Generation, for North Shore;
- 4) On-Bill Financing for S.C. No. 1; and
- 5) On-Bill Financing for S.C. No. 2.

The per-customer charge ("Effective Component") assessed to each service classification is the sum of applicable residential energy efficiency, commercial-industrial energy efficiency, and on-bill financing per-customer charges. The Effective Components for each service classification closely mirror the budgets and programs available to each service classification.

Following each Program Year (the twelve-month period beginning June 1), the Utilities shall prepare reconciliation statements comparing recoveries through Rider EOA to actual expenses incurred during the year. Amounts over- or under-recovered plus interest are converted to per-customer adjustments, which are

amortized over a nine-month period commencing September 1. Any amounts over- or under-recovered from the Reconciliation Adjustments are then carried over into the next year's reconciliation. Section D of Rider EOA specifies the methodologies for calculation of the Effective Components, Reconciliation Adjustments and Commission Ordered Adjustments, and the process for revising Effective Components during the Program Year.

Q. What filings will the Utilities make under proposed Rider EOA?

A. Section E of Rider EOA provides for the following filings:

- 1) The Utilities shall file annually with the Commission, no later than May 20, reports showing the determination of the Effective Component to be in effect during the upcoming Program Year. Rider EOA provides for revisions to the budget and Effective Components during the Program Year if necessary.
- 2) Commencing in 2012, the law provides that the Commission shall annually initiate a review to reconcile any amounts billed in the previous Program Year with the actual costs. The Utilities shall file the reconciliation and reconciliation adjustments annually with the Commission no later than August 31 after the end of each Program Year.
- 3) Within 45 days of the end of each quarter, the Utilities shall file with the Commission status reports tracking implementation of and expenditures for the each utility's portfolio of energy efficiency measures and DCEO's portfolio of energy efficiency measures.

4) The Utilities shall file with the Commission annual internal audits no later than February 1 following the Program Year. The audit shall determine whether calculations and reports are in accordance with the terms in Rider EOA. The audit shall include the following tests:

- a. Costs for recovery through Rider EOA are not recovered in other approved tariffs;
- b. Customer bills properly reflect Rider EOA adjustments;
- c. Revenues are properly recorded and reported;
- d. Expenses are properly recorded and reported; and
- e. Amounts recovered through the rider are at or below the statutory cap. This test shall be conducted in the annual audit for the third Program Year.

Q. Why are Petitioners proposing a per-customer charge?

A. The Utilities have established their current rates based on certain rate design objectives, including:

- 1) Better align costs and revenue recovery;
- 2) Provide equity between and within rate classes;
- 3) Maintain rate design continuity;
- 4) Reflect gradualism; and
- 5) Retain customers on their systems.

The rate design inherent in Rider EOA is merely an extension of those objectives. The per-customer charge methodology results in costs and revenues that are better aligned. Unlike a per-therm charge, amounts billed under a per-

customer charge are not influenced by usage variations caused by weather and fluctuating gas prices as well as other influences that can contribute to larger over- or under-recoveries. Recoveries are relatively stable and more predictable with a per-customer methodology, thus making funding to implement the Utilities' and DCEO's measures more stable.

Second, the per-customer adjustments result in increased equity between and within rate classes. Charges for each rate class reflect the costs budgeted for the programs that customers in each rate class are eligible to participate in and benefit from. Costs are spread evenly among customers within the rate class or classes.

Third, adoption of the per-customer adjustment maintains rate continuity. The existing energy efficiency program under Rider EEP employs a per-customer charge for recovery of eligible costs that has proven to be an effective mechanism for recovery of costs from customers.

Fourth, the per-customer charge contributes to gradualism through spreading costs evenly among customers rather than potentially adversely impacting larger usage customers with a per-therm charge.

Fifth, retention of customers on the system benefits all customers through increased sharing of fixed costs. The per-customer charge lessens the impact on larger customers without significantly impacting smaller customers, therefore lessening the likelihood of their leaving the system due to financial considerations.

197 For these reasons, a per-customer charge methodology is preferable to a
198 per-therm methodology for Petitioners.

199 Q. Please describe the annual filings that Petitioners will make with the
200 Commission to set the adjustments.

201 A. NS-PGL Ex. 2.2 represents the calculation of the Effective Components for
202 the Plan Period based on the budgets for each year in the Plan. Effective
203 Components are calculated separately for Peoples Gas and North Shore Gas.
204 Line 1 shows the Annual Retail Billings as calculated in NS-PGL Ex. 2.6, Line 6.
205 The annual budget for each year shown in NS-PGL Ex. 2.2 divided by the Annual
206 Retail Billings provides the appropriate percent of utility natural gas service costs
207 for comparison to the statutory cap. Lines 17, 34 and 51 show the annual
208 percentages. Line 52 shows the average percentage for comparison to the
209 statutory cap and demonstrates that the proposed budgets for the Plan Period
210 are under the statutory cap. For the Plan Period, the average percentage is
211 projected to be 0.81% for Peoples Gas and 0.80% for North Shore Gas, well
212 below the statutory 2% cap.

213 For each Program Year, NS-PGL Ex. 2.2 shows the forecast average
214 customers, budgeted expenses and resulting monthly per-customer adjustments
215 derived by dividing the budgeted expenses by the number of forecasted
216 customers and then dividing by the number of months in the Program Year. As
217 noted previously, separate calculations are performed for residential energy
218 efficiency for S.C. No. 1; residential energy efficiency for S.C. No. 2; commercial-
219 industrial energy efficiency for combined S.C. Nos. 2, 4, 5, 7 and 8 for Peoples

Gas and combined S.C. Nos. 2, 3, 4 and 6 for North Shore Gas; on-bill financing for S.C. No. 1; and on-bill financing for S.C. No. 2. However, no on-bill financing costs are assigned to North Shore Gas S.C. No. 2 for the Plan Period because of the miniscule number of qualifying residential customers with 4 or less units. The Effective Component for each service classification is the sum of the applicable energy efficiency and on-bill financing per-customer adjustments calculated. Projected Effective Components are shown for each of the three years on lines 15, 32 and 49. Any amounts over or under-recovered are collected or refunded through the annual reconciliation.

NS-PGL Ex. 2.3 shows the proposed format for the filing of Information Sheets with the Commission for Effective Components to be in effect for the first Program Year. Information Sheets and calculations will be filed annually no later than May 20, beginning in 2011. The Information Sheets shown in NS-PGL Ex. 2.3 are based on the proposed budget for the first Program Year.

Q. Please describe how Petitioners would file changes to the adjustments during a Program Year.

A. Changes to adjustments during the Program Year would only be filed where changes in the amount or timing of expenditures fluctuates significantly from the Plan. If needed, the Utilities would prepare calculations and revised Information Sheets based on forecast budgets and average number of customers for the remainder of the Program Year. The materials would be filed with the Commission no later than the 20th day of the month immediately preceding the

242 monthly billing period during which such revised EOA charges become effective.

243 The rationale and information supporting the revision will accompany the filing.

244 Q. Please describe the annual reconciliation process.

245 A. NS-PGL Ex. 2.4 is an illustrative example of the reconciliation calculation
246 for three years for Peoples Gas S.C. No. 1.

247 Lines 1 through 9 are assumed numbers used in the illustrative example.

248 Where possible, numbers are identical to numbers used in the actual calculations
249 provided in NS-PGL Ex. 2.2.

250 Lines 11 through 14 show the calculation of the Effective Components.

251 The per-customer adjustments are derived by dividing the budget amounts
252 (EBUD and OBUD) by the appropriate average forecast number of customers
253 (CUST) and dividing by the number of months in the Program Year (i.e., 12
254 months). The sum of the energy efficiency and on-bill per-customer adjustments
255 results in the Total Effective Component to be billed to customers, shown on Line
256 14.

257 Lines 17 to 40 show the calculation of the Reconciliation Adjustment to be
258 charged or refunded to customers over a nine month period. Lines 17 to 27
259 represent the calculation for residential energy efficiency while Lines 29 through
260 39 show the calculation for residential on-bill financing. Other service
261 classifications would also include calculations for commercial-industrial energy
262 efficiency.

263 Lines 17 to 20 compare the actual expenses and revenue recoveries from
264 customers for the previous Program Year. The resulting charge or refund is

shown on Line 20 (ERA1). Lines 21 to 24 compare the dollars reflected in the previous Program Year's Reconciliation Adjustment to the related refunds or recoveries from customers for the previous Program Year. The resulting charge or refund is shown on Line 24 (ERA2). Line 25 represents the calculation of interest for the sum of the ERA1 and ERA2 dollars. Line 26 shows the sum of ERA1, ERA2 and interest. Line 27 shows the results of dividing Line 26 by the average forecast of customers for the Reconciliation Amortization Period to arrive at the per-customer adjustment to be collected or refunded from customers. The process is replicated in Lines 29 through 39 for on-bill financing. Line 40 shows the Reconciliation Adjustment resulting from adding the per-customer reconciliation adjustments calculated above for energy efficiency and on-bill financing.

Lines 42 through 49 entitled "Revenue Proof" show the compilation of expenses, interest, revenues and adjustments billed for the three years in the example and demonstrate that all dollars are accounted for by the calculations with a difference of zero dollars.

A calculation similar to NS-PGL Ex. 2.4 will be performed for S.C. No. 1, S.C. No. 2 and combined S.C. Nos. 4, 5, 7 and 8 for Peoples Gas and S.C. No. 1, S.C. No. 2 and combined S.C. Nos. 3, 4 and 6 for North Shore Gas.

Q. What are Petitioners' estimated total monthly per-customer adjustments under the rider?

287 A. As shown in NS-PGL Ex. 2.2, Line 15, the estimated Effective
288 Components for Peoples Gas for the first Program Year are:

289 S.C. No. 1 - \$0.41 per month;

290 S.C. No. 2 - \$4.48 per month; and

291 S.C. Nos. 4, 5, 7 and 8 - \$2.34 per month.

292 The estimated Effective Components for North Shore Gas for the first Program
293 Year are:

294 S.C. No. 1 - \$0.40 per month;

295 S.C. No. 2 - \$4.33 per month; and

296 S.C. Nos. 3, 4 and 5 - \$2.48 per month.

297 Q. How does the tariff address funds available to DCEO?

298 A. For each Program Year, DCEO is entitled to 25% of the available funds
299 approved by the Commission and recovered through Rider EOA.

300 Q. What does the term “available funding,” as it is used in the tariff, mean?

301 A. Available funding per Section 8-104(e) is the funding “associated with
302 energy efficiency programs approved by the Commission.” Therefore, when the
303 tariff uses the term “available funding,” this means that DCEO is entitled (subject
304 to meeting other legal requirements) to receive 25% of amounts recovered from
305 customers under Rider EOA for each of the Utilities.

306 Q. What savings targets apply to North Shore Gas and Peoples Gas for the
307 Plan Period?

308 A. The savings goals for the Plan Period are 0.2%, 0.4% and 0.6% for
309 cumulative savings of 1.2% for the three years. Per Section 8-104(c), these

goals are applied to the total amount of gas delivered to retail customers for Calendar 2009. Gas delivered to retail customers is calculated as 1,139,309,191 therms for Peoples Gas and 248,678,512 therms for North Shore Gas. Gas delivered to retail customers represents all therms delivered, less therms delivered for firms reported as exempt and self-directing per Section 8-104(m), less wholesale transportation deliveries. The resulting savings targets for the Peoples Gas program for the three years (in therms) are:

	Peoples Gas	DCEO	Total
Program Year 1	1,822,894	455,724	2,278,618
Program Year 2	3,645,790	911,447	4,557,237
Program Year 3	5,468,684	1,367,171	6,835,855

The resulting savings targets for the North Shore Gas program for the three years (in therms) are:

	North Shore Gas	DCEO	Total
Program Year 1	397,886	99,471	497,357
Program Year 2	795,771	198,943	994,714
Program Year 3	1,193,657	298,414	1,492,071

The calculation of savings targets is included in NS-PGL Ex. 2.5.

Q. Why are Petitioners excluding deliveries to large volume transportation customers from their calculation?

A. The intent of the legislation was captured in debate before the General Assembly associated with passage of Senate Bill 1918. (State of Illinois, 96th

332 General Assembly, House of Representatives, 63rd Legislation Day, 5/28/2009,
333 Transcription Debate, Page 182, the “Transcripts”). The Transcripts include:

334 “Reitz: So, what is excluded is the wholesale commodity cost, the
335 utilities cost for transportation for that wholesale commodity is
336 included, right?

337 Flider: That’s correct, yes.

338 Reitz: And you were talking about excluding only wholesale
339 commodity purchases, retail gas purchases from public utilities, and
340 certified alternative gas suppliers are included, right?

341 Flider: Yes.”

342 Because Section 8-104(c) specifies “gas delivered to retail customers” as the
343 base, and the Transcripts define large volume transportation as “wholesale,”
344 these volumes are excluded. The Utilities’ small volume transportation
345 customers (“Choices For You”) are served by certified alternative gas suppliers
346 and their deliveries are included as retail. NS-PGL Ex. 2.7 is an excerpt from the
347 Transcripts that includes the above-quoted exchange.

348 Q. Please describe the calculation of the statutory 2% cap described in
349 Section 8-104(d) that limits recoveries from customers through the rider.

350 A. The calculation of the statutory cap (“Rate Impact Cap”) is included in NS-
351 PGL Ex. 2.6. The calculation is based on estimated amounts for the first
352 Program Year. Line 1 states the Total Amount for Utility Natural Gas Service.
353 This amount includes all amounts included in customers’ bills including service
354 charges, gas charges, riders and taxes, but excludes supplier charges related to

355 pools, which is wholesale activity for the reasons described in my previous
356 answer. Line 2 adds estimated amounts for commodity for the Utilities' small
357 volume transportation customers served by certified alternative gas suppliers.
358 These customers are retail. Line 4 removes amounts related to exempt and self-
359 directing customers per Section 8-104(m). Line 5 backs out amounts included in
360 the forecasts for energy efficiency and on-bill financing and associated taxes.
361 Line 6 shows the resulting total annual retail billings. Line 7 shows the annual
362 statutory caps for recovery through Rider EOA that are the result of multiplying
363 the total annual retail billings by 2%. The statutory caps for the Plan Period are
364 \$27,117,358 for Peoples Gas and \$5,355,060 for North Shore Gas. The Utilities'
365 proposals are within the caps.

366 Q. Does this conclude your direct testimony?

367 A. Yes, it does.